

United States Senate

WASHINGTON, DC 20510

March 26, 1999

The Honorable Charles O. Rossotti
Commissioner
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224

Dear Commissioner Rossotti:

It has come to our attention that farmers across the country are having significant problems applying the new income-averaging rules to their 1998 taxes because the Internal Revenue Service (IRS) has not issued any regulations or formal guidance on new section 1301 of the Internal Revenue Code. Enacted in the Taxpayer Relief Act of 1997 (Public Law 105-34) and made permanent in last year's omnibus appropriations legislation (Public Law 105-277), this provision is a central part of the tax relief package for farmers who have been so severely affected by the ongoing agricultural crisis in America.

With the tax-filing deadline just 22 days away, we are extremely concerned by this lack of guidance on which taxpayer can rely, especially since the income-averaging provision was enacted nearly two years ago. For many farmers, the vast majority of whom are small business owners, this situation has forced them to make critical assumptions on how the rules are to be applied in their particular circumstances. These farmers should not have to guess about the character and composition of "elected farm income," how the income-averaging rules apply in cases involving pass-through entities like S corporations, or how the rules should be coordinated with losses (other than net operating losses) in one or more of the preceding three taxable years. The IRS should provide answers in time for them to file their 1998 income tax returns.

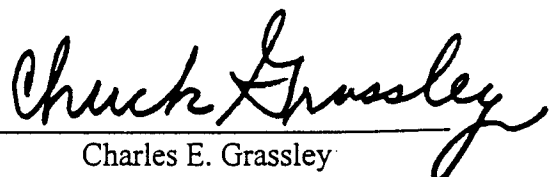
For the farmers in Missouri, Iowa, and across the nation who are still struggling to use income averaging on their 1998 returns, we urge you to issue immediate guidance. The tax relief these rules will provide is critical to thousands of farmers in the United States. For those who have already given their best guess in the absence of guidance, we ask that you assure them that penalties will not be imposed if the IRS later determines that they guessed wrong.

Thank you for your assistance in addressing this serious matter promptly. If you have any questions, please contact either of us or Mark Warren with Senator Bond at (202) 224-5175 or Kolan Davis with Senator Grassley at (202) 224-3744. We look forward to working with you to see that farmers are able to apply this important tax provision simply and correctly.

Sincerely,



Christopher S. Bond



Charles E. Grassley